The Financial Times of Indiana

Tax restructuring news from the Office of Governor Frank O'Bannon

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www.IN.gov/gov

The News in brief...

For years, Indiana has been known for its agricultural and manufacturing base. Yet, as the times have changed, so has Indiana's economy.

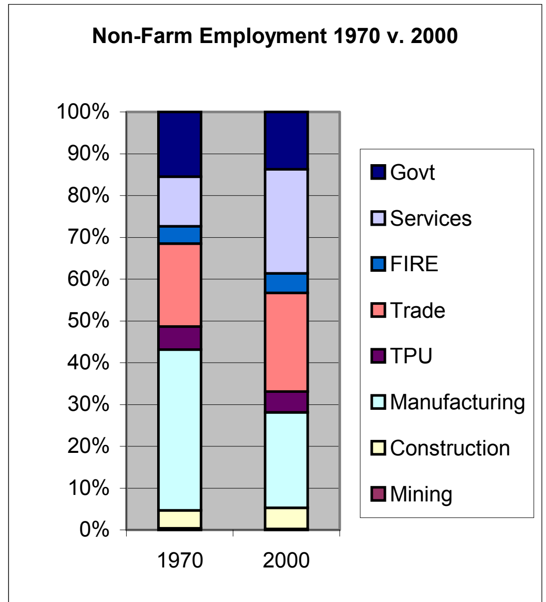
And while the state's traditional economic base remains vital to Indiana's success, over the last decade the Hoosier economy has become more diverse. Advanced manufacturing, distribution and logistics, pharmaceuticals, medical technology and high-technology companies have thrived across the state. In fact, according to the U.S. Bureau of Labor Statistics (1999), Indiana ranks 11th in the nation in the number of workers employed in high-tech industries.

With its highly skilled workforce, strong infrastructure, low business costs and other natural advantages, Indiana is an attractive place to do business. However, to succeed in today's highly competitive global marketplace, Indiana must offer an even more productive business environment. Recent action by the House Ways and Means Committee shows that Chairman Pat Bauer and the General Assembly are serious about taking action on Governor O'Bannon and Lieutenant Governor Kernan's plan to restructure Indiana's tax system.

The 21st Century Tax Plan, now combined with the Balanced Budget Plan in House Bill 1004, cuts homeowners' property taxes on average by 4.7%, protects Indiana's working poor with incentives such as the Earned Income Tax Credit; and stimulates economic development by eliminating antiquated taxes that punish successful business ventures and discourage companies from locating and growing in Indiana. By reducing the inventory tax and eliminating the corporate gross income tax, as well as increasing the research and development tax credit and adding a new investment tax credit, Indiana places itself in a prime position to compete for a long time to come.

HB 1004 passed Second Reading in the House of Representatives on Thursday, and will now move to Third Reading for a possible vote next week.

For the latest version of House Bill 1004, go to:
http://www.in.gov/serv/lsa_billinfo?year=2002&session=1&request=getBill&d



The chart above shows that in 1970, the majority of the state's workers were employed by manufacturers. In 2000, however, employment in the services sector nearly matched the manufacturing sector. The services sector includes industries such as information technology, research and engineering, plus various bio-medical related fields.
FIRE = Finance, Insurance and Real Estate
TPU = Transportation and Public Utilities
Source: U.S. Bureau of Labor Statistics
Learn more at: http://www.bls.gov

The Latest on Business Basics of House Bill 1004

Elimination of the Corporate Gross Income Tax: Of the 150,000 organized businesses in Indiana, only 13% are regular corporations, which are subject to the gross income tax. The remaining 87% are not paying this tax or any other corporate income taxes. This is a tax that is unique to Indiana and one that should be eliminated.

Increase in the Research & Development Tax Credit: Under current provisions in HB 1004, the R&D tax credit would be increased from 5% to 10%. It will provide a great incentive to encourage investment in Indiana, creating high-wage, high-skill jobs through tax incentives on equipment and other tools for high-tech research projects.

Inventory Tax Reform: Indiana and Ohio are the only states in the country that have an inventory tax – and Ohio is getting rid of its. This is an onerous tax on businesses that often keeps Indiana from attracting new companies when competing against other states.

Creation of the Investment Tax Credit: This new economic development tool – a credit on personal property – provides incentive for capital investment. The credit would be 15% in the first year and 10% in the second year.

What People Are Saying…

"Indiana's taxation system has evolved over the decades, but it remains rooted in an economy that no longer exists. Now is the time to take a fundamental look at the state's tax structure and reinvent it."-Purdue University President Martin Jischke

Franchise Tax Q&A

Q: What is this new franchise tax that's included as part of Indiana's tax restructuring in House Bill 1004?
A: The proposed franchise tax is a 0.3% tax on a company's net worth that primarily replaces the revenue lost by eliminating the gross receipts and inventory taxes. It would apply to *all* organized business entities in Indiana, making it more fair than the gross receipts tax and a more stable source of revenue. 92% of the franchise tax revenues will come from entities with more than $1 million in apportioned net worth – **and only 5% of Indiana's companies fall into that category.**

Source: State Budget Agency

Be on the watch for…*the tax plan and how Indiana's workforce and agricultural community will fare*

For more information, contact Cheryl Reed or John Zody at 317-232-1012